

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



FY 2009-10 STAFF BUDGET BRIEFING

DEPARTMENT OF AGRICULTURE

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

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**FY 2009-10 BUDGET BRIEFING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE**

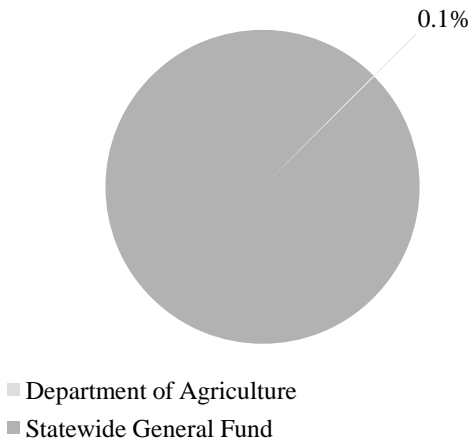
DEPARTMENT OF AGRICULTURE

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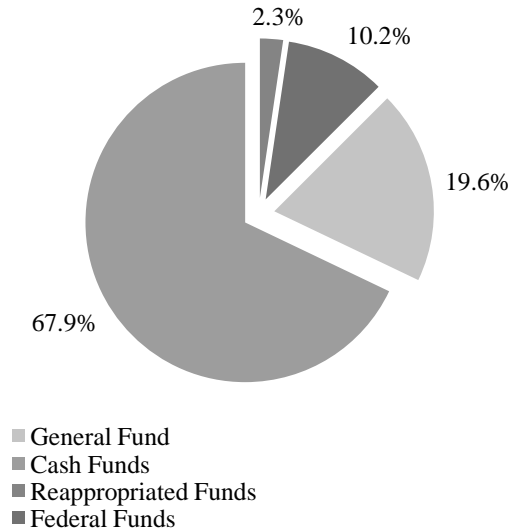
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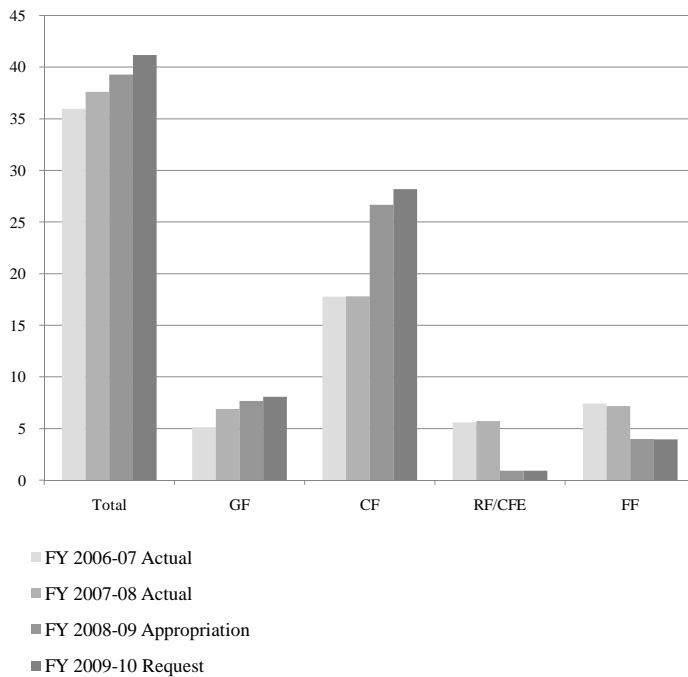
Department's Share of Statewide General Fund



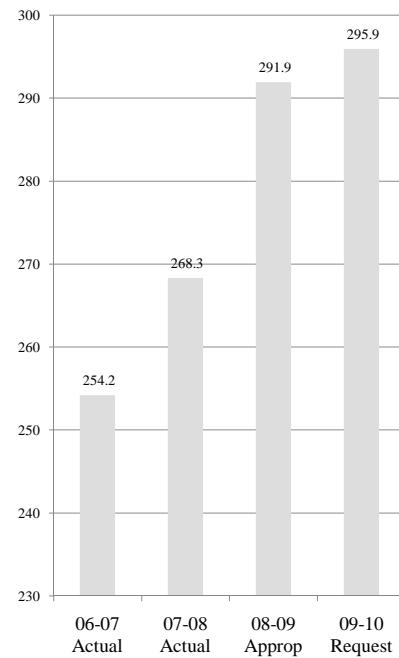
Department Funding Sources



**Budget History
 (Millions of Dollars)**

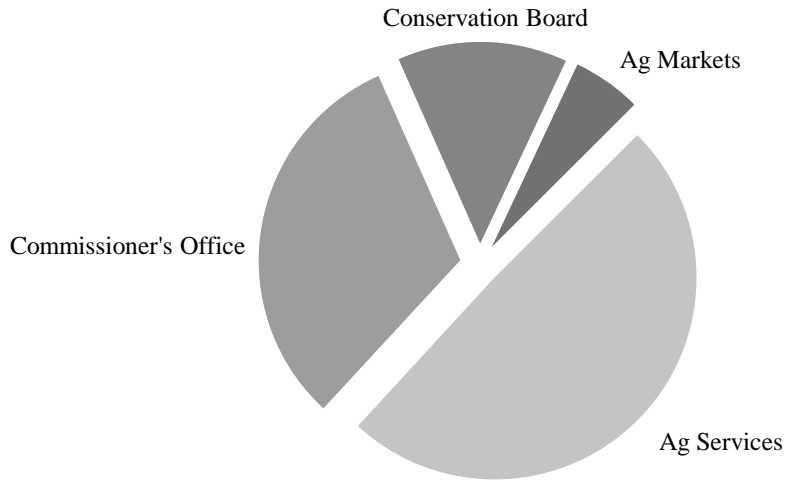


FTE History

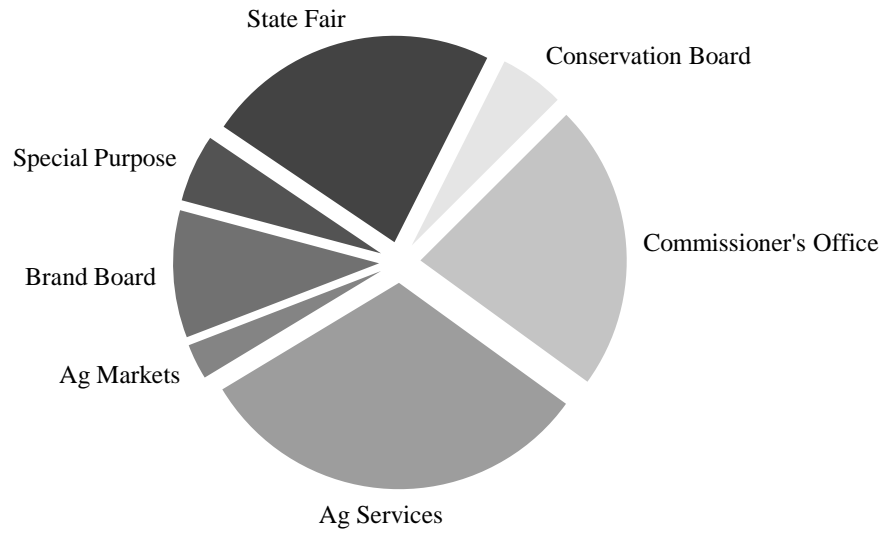


Unless otherwise noted, all charts are based on the FY 2008-09 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



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DEPARTMENT OVERVIEW

Key Responsibilities

- Provide consumer and producer protection through inspection and certification of animal feed, fertilizers, fruits/vegetables, eggs, and meat; precision testing of commercial scales, and regulation of the sale of farm products;
- Protect the state's livestock industry by monitoring livestock herds for a variety of diseases;
- Register and regulate commercial pesticide applicators, inspect for agricultural chemical pollution, and administer the State weed control program;
- Assist the promotion of Colorado agricultural products to domestic and international markets;
- Provide inspection of livestock brand registrations to protect producers from fraud or theft;
- Protect and conserve soil resources from contamination and erosion; and
- Administer the Colorado State Fair and fairgrounds through the State Fair Authority.

Factors Driving the Budget

Funding for this department in FY 2008-09 consists of 67.9 percent cash funds, 19.6 percent General Fund, 10.2 percent federal funds, and 2.3 percent reappropriated funds.

Debt Repayment on the Events Center

The current debt principle owed on the Events Center is approximately \$971,000. The State Fair receives 100 percent of the interest earned on the sale of securities credited to the Colorado Travel and Tourism Promotion Fund, to fully pay off all debt on the Events Center, pursuant to H.B. 06-1384. The State Fair anticipates paying off all debt in December 2008. However, it is important to note that during the 2008 legislative session, the General Assembly passed legislation that will reallocate interest earnings on moneys credited to the Colorado Travel and Tourism Promotion Fund to the Department for various agricultural programs, including the State Fair. However, the effective clause in S.B. 08-1399 stipulates that the bill shall not take effect until all outstanding debt on the State Fair has been repaid in full. The details of H.B. 08-1399 are provided in the next key factor

driving the budget. In addition, the repayment of the debt on the Events Center is discussed in the second issue, found on page 16 of this document.

Increase in Funding for Various Agricultural Programs

The passage of H.B. 08-1399 changed the allocation of interest earned on the sale of securities determined to be abandoned property and then credited to the Colorado Travel and Tourism Promotion Fund. The moneys received will support numerous initiatives, each directed at furthering the overall mission of the Department. Specifically, in the first two years, the Department anticipates that these moneys will be allocated to provide additional funding to the State Fair, noxious weed efforts, the ColoradoProud marketing program, conservation efforts, Agricultural Products Utilization and Marketing Program (Ag PUMP), other emerging agricultural issues, and to fund three positions. The bill allocated moneys to the Special Purpose Division because the funding received by the Department will change from year to year and is not division specific. As was described in the aforementioned factor driving the budget, the bill can not be implemented until all outstanding debt on the Events Center is paid in full. The Department anticipates that this debt will be fully repaid by December 2008. This is discussed in the second issue, found on page 16 of this document.

Department Funding Changes

The majority of the Department's total funding for FY 2008-09 (67.9 percent, or \$26.7 million) will be generated through fees collected from inspection and certification services performed by the Agricultural Services Division and the Brand Board, as well as revenue earned from the activities of the State Fair. While the percentage of the Department's total funding from fees has remained flat (decrease of 1.9 percent) over the last three years, the amount of General Fund received by the Department has increased 47.4 percent (\$2.5 million) and the amount of federal funds received by the Department has increased 111.8 percent (\$2.1 million). The General Fund increase is a reflection of the passage of H.B. 07-1198 which subsidizes Inspection and Consumer Services programs which were previously fully cash-funded by fees with General Fund in relation to how much the services provided by each program benefit the common good as compared to a specific industry. And, the increase in federal funds reflects additional grant moneys for the Cooperative Agricultural pest Survey Program, Pesticide Data Program, the National Animal ID System, Homeland Security, Microbiological Data Program, and the Specialty Crops program.

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DECISION ITEM PRIORITY LIST

Decision Item	GF	CF	RF	FF	Total	FTE
1	52,513	19,845	22,642	2,797	97,797	0.9
GIS FTE and Associated Operating						
<p>Commissioner's Office/Agricultural Markets/Special Purpose. The department is requesting funding to provide department-wide, Geographic Information Systems (GIS), mapping support to various department programs. The majority of this request's funding will be General Fund (53.6 percent), the remainder coming from various cash sources and indirect cost recoveries. <i>Statutory authority: Sections 35-5.5-117 (2) (a) and 35-23-104, C.R.S.</i></p>						
2	0	55,797	0	0	55,797	0.0
Brand Board Fuel Increase						
<p>Brand Board. The department is requesting an increase in cash funds spending authority to cover estimated additional costs associated with fuel increases for the Brand Board. <i>Statutory Authority: Sections 24-30-1102 (5) and 35-41-104 (2), C.R.S.</i></p>						
3	40,013	0	0	0	40,013	0.5
Part-time Emergency Response FTE						
<p>Agricultural Services - Animal Industry. The department is requesting General Fund and 0.5 FTE to assist with disease testing and control efforts, as well as in developing emergency response plans. The position will be situated in Denver however, will serve in a statewide capacity related to disease testing and control as well as statewide emergency response plan development. <i>Statutory authority: Section 35-50-105, C.R.S.</i></p>						
4	0	100,069	0	0	100,069	0.0
Measurement Standards Truck						
<p>Agricultural Services - Inspection and Consumer Services. The department is requesting cash funds spending authority to replace one of its six measurement standards trucks, a complete set of test weights, and a hoist. The vehicle to be replaced has been driven 62,000 miles and is six years old. The truck should ordinarily be purchased through Fleet Management, however can receive a waiver for out-of-cycle vehicle replacement if Fleet Management deems it necessary. The normal replacement criteria for trucks of this size is between 100,000 and 150,000 miles or 12 years. Maintenance costs have increased from \$700 per year (first 3 years) to \$3,400 per year (most recent 2 years). <i>Statutory authority: Section 35-14-127 (3), C.R.S.</i></p>						
5	0	0	0	0	0	0.0
Intentionally Left Blank by the Department						

Decision Item	GF	CF	RF	FF	Total	FTE
6	0	0	0	0	0	0.0
<p>Reorganize Department Structure</p> <p>Commissioner's Office/Agricultural Services/Markets/Conservation Services. The Department is requesting that the Agricultural Markets Division and the Conservation Services Division be transferred and integrated into the Agricultural Services Division. The Department anticipates that this reorganization will enable the Department to better manage periodic fluctuations in program and budget needs by having these activities budgeted within one division. <i>Statutory authority: Section 24-1-134, C.R.S.</i></p>						
NP-1	34,505	57,230	0	3,697	95,432	0.0
<p>State Fleet Variable Cost</p> <p>Commissioner's Office. The Department is requesting an increase to its Vehicle Lease Payments line item to accommodate increases in statewide vehicle variable costs including fuel, maintenance, and insurance (DPA, DI #1). Funding will be from various cash funded sources. <i>Statutory authority: Section 24-30-1104 (2), C.R.S.</i></p>						
NP-2	0	0	0	0	0	0.0
<p>Intentionally Left Blank by the Department</p>						
NP-3	101	244	0	3	348	
<p>Ombuds Program Increase</p> <p>Commissioner's Office. The Department is requesting an increase to its Workers' Compensation line item to accommodate increases in statewide expenses related to the Department of Personnel's Ombuds Program to mitigate certain state business risks related to employee concerns about issues in the workplace (DPA, DI #7). Funding will be from various cash funded sources. <i>Statutory authority: Section 24-50-604, C.R.S.</i></p>						
NP-4	6,639	7,899	0	585	15,123	0.0
<p>Postage Increase</p> <p>Department Operating Lines. The Department is requesting an increase to its various operating lines an increase to accommodate increases in postage rates (DPA, DI #5). It should be noted that the Department requested and received an increase of \$20,469 for postage in FY 2008-09, including \$7,413 General Fund. Funding will be from various cash funded sources, General Fund, and from federal grants. <i>Statutory authority: Section 24-30-1104, C.R.S.</i></p>						
NP-5	13,219	17,890	0	655	31,764	0.0
<p>State Fleet Reconciliation</p> <p>Commissioner's Office. The Department is requesting an increase to its Vehicle Lease Payment line item to accommodate the replacement of fleet vehicles within the State Fleet Management Program (DPA, DI #8). <i>Statutory authority: Section 24-30-1117, C.R.S.</i></p>						
Total	146,990	258,974	22,642	7,737	436,343	1.4

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BASE REDUCTION ITEM PRIORITY LIST

Base Reduction	GF	CF	RF	FF	Total	FTE
1	(570)	(2,955)	0	0	(3,525)	0.0
Operating Reduction Related to Email Usage						
Agricultural Services. The Department is requesting a reduction to its operating line item related to the adoption of email as a means of communication, eliminating a portion of costs related to mailing applications for various programs within the division. <i>Statutory authority: Section 35-1-104 (e), C.R.S.</i>						
Total	(570)	(2,955)	0	0	(3,525)	0.0

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OVERVIEW OF NUMBERS PAGES

The following table summarizes the total change, in dollars and as a percentage, between the Department's FY 2008-09 appropriation and its FY 2009-10 request.

Total Requested Change, FY 2008-09 to FY 2009-10 (millions of dollars)

Category	GF	CF	RF	FF	Total	FTE
FY 2008-09 Appropriation	\$7.7	\$26.7	\$0.9	\$4.0	\$39.3	291.9
FY 2009-10 Request	8.1	28.2	0.9	4.0	41.2	295.9
Increase / (Decrease)	\$0.4	\$1.5	\$0.0	\$0.0	\$1.9	4.0
Percentage Change	5.2%	5.6%	0.0%	0.0%	4.8%	1.4%

The following table highlights the individual changes contained in the Department's FY 2009-10 budget request, as compared with the FY 2008-09 appropriation. For additional detail, see the numbers pages in Appendix A.

Requested Changes, FY 2008-09 to FY 2009-10

Category	GF	CF	RF	FF	Total	FTE
Commissioner's Office						
Other centrally-appropriated	\$109,231	\$278,411	\$0	\$11,871	\$399,513	0.0
GIS Analyst (DI #1)	52,513	0	22,642	2,034	77,189	0.9
State Fleet Lease Inc (NP-5)	13,219	17,890	0	655	31,764	0.0
State Fleet Variable Inc (NP-1)	1,328	0	0	3,697	5,025	0.0
Postage Increase (NP-4)	211	0	0	585	796	0.0
Ombuds Program Inc (NP-3)	101	244	0	3	348	0.0
Animal Response FTE (DI #3)	276	0	0	0	276	0.0
Funding Mix Adjustment	21,065	0	(21,065)	0	0	0.0
Salary Survey	(81,030)	(130,768)	0	(10,436)	(222,234)	0.0
Performance-based Pay	<u>(114,884)</u>	<u>(105,921)</u>	<u>0</u>	<u>(10,302)</u>	<u>(231,107)</u>	<u>0.0</u>
Subtotal	\$2,030	\$59,856	\$1,577	(\$1,893)	\$61,570	0.9

Category	GF	CF	RF	FF	Total	FTE
Agricultural Services						
Reorganization (DI #6)	\$1,515,789	\$1,078,708	\$45,000	\$500,000	\$3,139,497	10.7
Meas. Standards Truck (DI #4)	0	100,069	0	0	100,069	0.0
State Fleet Variable Inc (NP-1)	28,469	53,981	0	0	82,450	0.0
Animal Response FTE (DI #3)	39,737	0	0	0	39,737	0.5
GIS Analyst (DI #1)	0	16,792	0	763	17,555	0.0
Postage Increase (NP-4)	5,682	7,747	0	0	13,429	0.0
Operating Reduction (BR #1)	(570)	(2,955)	0	0	(3,525)	0.0
Subtotal	\$1,589,107	\$1,254,342	\$45,000	\$500,763	\$3,389,212	11.2
Agricultural Markets						
State Fleet Variable Inc (NP-1)	\$940	\$0	\$0	\$0	\$940	0.0
Postage Increase (NP-4)	149	0	0	0	149	0.0
GIS Analyst (DI #1)	0	128	0	0	128	0.0
Reorganization (DI #6)	(446,927)	(628,708)	(45,000)	0	(1,120,635)	(5.2)
Subtotal	(\$445,838)	(\$628,580)	(\$45,000)	\$0	(\$1,119,418)	(5.2)
Brand Board						
Fuel Increase (DI #2)	\$0	\$55,797	\$0	\$0	\$55,797	0.0
Special Purpose						
GIS Analyst (DI #1)	\$0	\$2,925	\$0	\$0	\$2,925	0.0
State Fleet Variable Inc (NP-1)	0	961	0	0	961	0.0
Postage Increase (NP-4)	0	152	0	0	152	0.0
Subtotal	\$0	\$4,038	\$0	\$0	\$4,038	0.0
State Fair						
State Fleet Variable Inc (NP-1)	\$0	\$2,288	\$0	\$0	\$2,288	0.0
Conservation Services						
State Fleet Variable Inc (NP-1)	\$3,768	\$0	\$0	\$0	\$3,768	0.0
Postage Increase (NP-4)	597	0	0	0	597	0.0
Reorganization (DI #6)	(1,068,862)	(450,000)	0	(500,000)	(2,018,862)	(5.5)
Subtotal	(\$1,064,497)	(\$450,000)	\$0	(\$500,000)	(\$2,014,497)	(5.5)
Total Change	\$80,802	\$297,741	\$1,577	(\$1,130)	\$378,990	1.4

**FY 2009-10 Joint Budget Committee Staff Budget Briefing
Department of Agriculture**

BRIEFING ISSUE

ISSUE: Elimination of Indirect Cost Recovery Caps and a Program Subsidy

Several cash-funded programs have statutory limitations on the amount of indirect costs that can be recovered, thus funding is backfilled with General Fund. In addition, one of these programs also receives a \$200,000 General Fund subsidy.

SUMMARY:

- ❑ Four cash-funded programs in the Department of Agriculture have statutory indirect cost recovery caps, of which one also receives a program subsidy. As a result, these fee-for-service programs require approximately \$785,000 General Fund in FY 2008-09.
- ❑ Program costs and indirect cost recovery costs increase every year, therefore the amount the state must backfill with General Fund for these programs also increases every year.
- ❑ In the last economic downturn, the General Assembly passed legislation making it possible for the Department to collect the fullest amount of indirect costs applicable to a given division by removing indirect cost recovery caps.

RECOMMENDATION:

Staff recommends the Joint Budget Committee sponsor legislation that would allow for full recovery of indirect costs associated with the Brand Board, Alternative Livestock, Chemigation, and Mandatory Fruit and Vegetable inspection programs. In addition, staff recommends that the legislation reduce the General Fund obligation to finance the operational cost of mandatory inspections of shipments of potatoes, and progressively increases the proportion of such cost that is financed from the Mandatory Fruit and Vegetable Inspection Fund over a two-year schedule until the entire cost of each program is paid through applicable fees.

DISCUSSION:

Please note that the following discussion section is divided into two sections. Section (1) reflects the discussion related to indirect cost recovery caps applied to four programs and Section (2) reflects the discussion related to the program subsidy. There is also a conclusion section at the end of this issue.

(1) Indirect Cost Recovery Caps

Indirect Costs. Indirect costs are the overhead costs associated with the operation of general government functions and departmental administrative duties. Indirect cost recoveries are intended to offset these overhead costs, that otherwise would have been supported by the General Fund, from cash- and federally-funded programs. Recoveries from cash and federally-funded programs are calculated for statewide and departmental overhead costs. The Department of Agriculture allocates recovery of its indirect costs through a formula based on a 'per FTE' basis, or each FTE's share of recoverable expenses and then multiplies that amount by the total FTE within a specific program or division. However, the amounts reflected under this formula are often limited by the statutory caps on indirect cost recovery. In these instances, General Fund backfills the amount needed to finance the Commissioner's Office costs to administer these programs.

History of Indirect Costs Recovery Caps in the Department. The issue of indirect cost recovery caps as they related to a program within the Department of Agriculture was first addressed in H.B. 85-1232, which instituted a five percent restriction on appropriations made from the Mandatory Fruit and Vegetable Inspection Fund to cover indirect costs of the peach and potato inspection programs. During the 1988 Legislative Session, the General Assembly passed two bills, which amended the statutes to include indirect cost recovery caps. House Bill 88-1007 stated that the Chemigation Program shall recover indirect costs expressed as a percentage of the program's FTE versus FTE for the entire department. Additionally, H.B. 88-1126 limited indirect cost recoveries under the Brand Inspection Program to 3.6 percent of its total annual program appropriation. Additional program history is provided in Appendix E, found on page 34 of this document.

Senate Bill 03-169. As just mentioned, prior to FY 2003-04, the level of indirect costs related to four programs within the Department were limited by statute. However, when the state encountered economic difficulties, legislation was passed making it possible for the Department to collect the fullest amount of indirect costs applicable to a given division (S.B. 03-169). This bill reduced General Fund appropriation to the Commissioner's Office each year by an estimated \$500,000 for three fiscal years. However, the bill included a three-year sunset provision reinstating the previous indirect cost recovery caps held previously in statute. While S.B. 03-169 was controversial in some industries especially at the Brand Board, it provided the state substantial General Fund savings during the most recent economic downturn by removing state subsidies for these four agricultural programs.

Findings of the last three Performance Audits and the Department's Response. The issue of indirect cost recovery caps has been addressed in each of the Department's last three performance audits: the first was submitted in November 1989, the second in August 1994 and the most recent in February 2001. *Each time, the Department has disagreed with the State Auditor's recommendation to abolish these caps.* Additional information related to each performance audit can be found in Appendix D on page 33 of this document.

Organic Certification Program. The organic certification program, enacted into law by H.B. 02-1186, requires the program to recover the full amount of applicable indirect costs. By requiring this program collect the full direct and indirect costs of implementing the program, the General Assembly was making a policy decision not to limit indirect cost recoveries.

Agricultural Programs Receiving Subsidies. The following table exhibits the four programs with indirect cost recovery caps.

Indirect Cost Recovery Caps in the Department of Agriculture			
Program	Enacting Legislation	Applicable Statute	Description of the Indirect Cost Recovery Cap
Mandatory Fruit & Vegetable	H.B. 85-1232	Section 35-23-114 (3) (a) (II), C.R.S.	5% of appropriation
Alternative Livestock	H.B. 94-1096	Section 35-41.5-116, C.R.S.	3.6 % of appropriation
Chemigation	H.B. 88-1007	Sections 35-11-105 (4) and 35-11-106 (3) (b), C.R.S.	Percent of program FTE to Dept. FTE of appropriation (~ 1.1%)
Brand Inspection	H.B. 88-1126	Section 35-41-102 (b), C.R.S.	3.6% of appropriation

General Fund Subsidies Received by Agricultural Programs in FY 2008-09. Below is a table showing the FY 2008-09 indirect cost assessments applied to programs with indirect cost recovery caps in statute. The table also includes a calculated actual indirect cost assessments, and the calculated amount of General Fund required to subsidize the indirect costs of each program.

Agricultural Indirect Cost Assessments for Programs with Indirect Cost Recovery Caps in Statute				
Program	Program FTE	FY 08-09 Assessment	Actual Assessment	General Fund Subsidy
Brand Inspection	66.3	\$133,797	\$515,483	\$381,686
Mandatory Fruit & Vegetable	32.5	74,315	252,688	178,373
Chemigation	3.2	86	24,880	24,794
Alternative Livestock	0.0	3,444	3,444	0
Total	102.0	\$211,641	\$796,494	\$584,853

Impact of Repealing Statutory Indirect Cost Recovery Caps on Fee Amounts. The impact of repealing statutory indirect cost recovery caps will require both the Mandatory Fruit & Vegetable Program and the Brand Board to increase their fees by approximately 9.3 percent, the Chemigation Program to increase its fees by 11.5 percent, and the Alternative Livestock Program by a negligible amount. It is important to note that the Chemigation Program's increase is augmented by the low program to department FTE ratio used to calculate its indirect cost recovery cap. In the short-term, fund balances related to these various programs (estimated to be \$1.4 million; mostly Brand

Inspection Fund) could defray the initial impact of recovering the full amount of indirect costs and the immediate need to increase fees.

Benefits to Revenue. The TABOR time-out concludes on July 1, 2010, pursuant to Section 24-77-103.6, C.R.S. If the cost recovery caps were removed from statute, this action would increase the amount of cash-funded revenue collected by the state by approximately \$584,853, which could in turn grow the TABOR revenue limit, and thus could benefit health care, education, retirement plans for police and firefighters, and transportation projects. The inclusion of these fund sources within the TABOR revenue limit is prudent as the revenues received by these programs have been historically very stable, providing a stable cash fund source which would provide little threat to fluctuations which would impact the locked-in TABOR revenue limit.

Equity Among Department Programs. When funding for the Commissioner's Office is only funded fully by some cash- and federally-funded programs and not by others, an inequity is created. Cash- and federally-funded programs that fully fund their indirect costs limit their costs to the industry it serves, whereas programs with cost recovery caps require supplementary General Fund support from all state tax-payers and also benefit from reduced fees. Industries without indirect cost recovery caps do not partake in these statutory benefits.

Legislative Policy Guidance Needed. Staff notes that two of the three of the most recent pieces of relevant legislation were passed more than *twenty years ago* and whether the current membership of the General Assembly still feels the same way about the need for these recovery caps has not been established. The passage of H.B. 02-1186, *six years ago*, which requires the Organic Certification Program to recover the full amount of applicable indirect costs, would indicate that perhaps such sentiment is not as strong.

(2) Program Subsidy

Mandatory Fruit and Vegetable Inspection Program. This program was initiated in 1931 and is *applicable to only one agricultural product, potatoes*, pursuant to Section 35-23-111, C.R.S. State statute used to include other agricultural commodities such as apples, peaches¹, cantaloupes, green peas, cabbage, melons, spinach, onions, pears, and head lettuce, however only potatoes still require mandatory inspection under the guidelines of this program. The program is administered by Colorado State University Potato Certification Service (Department of Horticulture and Landscape Architecture) as authorized by the Colorado State Board of Agriculture. Inspectors check the condition and storage of potatoes prior to shipment and will grade the potatoes accordingly. Colorado is one of four states under federal US Department of Agriculture regulation and the only one with state control. Colorado is one of the largest producers of fresh potatoes, as compared to potatoes grown frozen or other processing. Grading varies for these different types of potatoes.

¹ Peaches were the last agricultural product requiring mandatory inspection other than potatoes, peaches were removed from the mandatory inspection list in Section 35-23-111, C.R.S., pursuant to S.B. 95-006.

Potato Inspection Program Subsidy. The state presently pays \$200,000 of the program's operational costs, with the remainder paid with fund balance and through certificate fees assessed by the Department, pursuant to Section 35-23-114 (3) (a), C.R.S.

Mandatory Inspection Supported by Growers. In 2006, the Colorado potato growers voted to keep potato inspections mandatory. Of note, 97.0 percent of all eligible potato growers participated in the survey, of which 79 percent voted in favor of supporting the mandatory statute for inspection of potatoes.

Large Shippers Against, Smaller Shippers in Favor of Mandatory Inspection. Recently, staff made contact with several storage facilities and anecdotally verified the findings of the potato growers' survey by asking three questions to seven shippers affiliated with the Colorado Potato Administrative Committee: (1) is the program effective; (2) is the program critical to the state's marketability; and (3) is the cost for the inspection high, low, or equitable. It was learned by staff in these conversations that large growers did not find value in the mandatory potato inspection program as they find state inspections duplicative as they have in-house quality control employees that ensure the potatoes meet their buyers' quality requirements and that it was their experience that no matter if the inspector approved the potatoes for shipment, if the buyer didn't approve, then there was no real recourse (e.g., "the customer is always right"). All large growers indicated that the costs of inspection were equitable. On the other hand, medium- to smaller-sized growers indicated that the inspection program was very valuable in terms of effectiveness and marketability however, the cost of inspection was equitable at best to high as the cost for inspection for smaller quantities is greater per unit. These smaller growers noted that the state inspectors help provide a uniform level of quality, helping the Colorado potato industry as a whole. In some instances, the costs of inspection for the smaller growers places them at a price disadvantage to competing potato growing states which do not have the same requirement, thus diminishing their margin for profit. It should be noted that in order to ship potatoes internationally, certification is often required. Further, staff has learned that some states that once required state inspections, such as Wisconsin and Maine, are now seeking legislation to again require state inspection.

Program Fee Analysis. As is exhibited in the following table, program fees have remained flat and have actually decreased in recent years. In FY 2006-07, fees were decreased to reduce fund balance accumulated in the Mandatory Fruit & Vegetable Inspection fund and thus decreased the fees required to fund the programs operations. The fee level for FY 2008-09 is currently 10.0 cents per hundredweight. *The potato industry pays less per hundredweight for mandatory inspection now than when the program was created in 1931 (10.1 cents per hundredweight, see Appendix E, page 34).* The fact that the fund was accumulating fund balance with fees set to less than what was set in 1931 is further evidence that the General Assembly should consider eliminating the subsidy.

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08*	2008-09*
Fee per cwt	\$0.099	\$0.110	\$0.110	\$0.110	\$0.095	\$0.100	\$0.100

* Estimates from the Department's FY 2009-10 budget request.

Impact of Removing the Program Subsidy. The impact of repealing the statutory \$200,000 General Fund subsidy in FY 2009-10 would require a 9.3 percent increase in fees set by the Commissioner. It should be noted that if the program's indirect cost recovery is also removed, fees would need to be increased by 19.2 percent overall to offset the reduced General Fund subsidies received through indirect cost recovery cap and the program subsidy. In the short-term, fund balance (estimated to be \$195,203) could mitigate the initial impact of recovering the full amount of indirect costs and the immediate need to increase fees.

Benefits to Revenue. As was mentioned above, the same is true here, the TABOR time-out concludes on July 1, 2010. If the \$200,000 Mandatory Fruit & Vegetable Inspection program were eliminated from statute, this action would increase the amount of cash-funded revenue collected by the state by a like amount, and thus could benefit health care, education, retirement plans for police and firefighters, and transportation projects. The inclusion of the Mandatory Fruit and Vegetable Fund within the TABOR revenue limit is a prudent, as the revenues received by this program fund has been historically very stable growing at only a modest amount (2.2 percent over 5 fiscal cycles) and would provide a stable cash fund source which would provide little threat to fluctuations which would impact the TABOR revenue limit.

Conclusion

Cost of Doing Business. Staff recognizes the importance of the cattle, potato, and to a lesser degree the closed-system chemical distribution industries in Colorado. However, staff is not convinced that the General Fund moneys that currently subsidize these programs are for the "common good", but rather the good for a specific industry. Staff believes that the cost of inspection is a cost of doing business in this state and as such should be funded by the industry the program serves. Further, while industry may strongly support the required inspection of the products they sell, this does not require the state to subsidize the inspection. Staff deems it necessary to identify these industry-specific state subsidies in contrast to the needs of K-12 education, corrections, human services, and other largely General Funded state agencies.

**FY 2009-10 Joint Budget Committee Staff Budget Briefing
Department of Agriculture**

BRIEFING ISSUE

INFORMATIONAL ISSUE: State Fair Events Center Debt and the Status of H.B. 08-1399

House Bill 08-1399, which reallocated unclaimed property moneys credited to the Colorado Travel and Tourism Promotion Fund, has not been implemented because the debt on the State Fair Events Center has not been fully repaid.

SUMMARY:

- House Bill 08-1399 changed the allocation of unclaimed property moneys credited to the Colorado Travel and Tourism Promotion Fund from being fully allocated to the State Fair to pay off debt to a new allocation including 65 percent to various agriculture programs, 25 percent to the State Fair, and 10 percent to agritourism efforts.
- The allocation of of said moneys are contingent upon full repayment of the outstanding debt incurred by the Colorado State Fair Authority to build the Events Center in Pueblo, which has not yet been fully repaid.

DISCUSSION:

Colorado Travel and Tourism Promotion Fund. The State Treasurer is charged within three years of receipt of *unclaimed securities* to sell these assets within certain statutory guidelines. The proceeds from such sales are deposited in the Unclaimed Property Tourism Promotion Trust Fund, pursuant to Section 38-13-116.7, C.R.S. The principal of this fund is to be spent to pay certain claims. All interest derived from the deposit of the proceeds are credited to the Colorado Travel and Tourism Promotion Fund and is subject to appropriation by the General Assembly.

House Bill 08-1399 (Buescher/Isgar) changed the allocation of interest earned on the Unclaimed Property Tourism Trust Fund from the sale of securities determined to be abandoned property which are then credited to the Colorado Travel and Tourism Promotion Fund. Under the bill, the earned interest will be distributed as follows: (1) 10.0 percent will remain in the Colorado Travel and Tourism Promotion Fund for use by the Colorado Tourism Office in the Office of Economic Development and International Trade to promote agritourism in coordination with the Commissioner; (2) 65.0 percent to the newly created Agriculture Management Fund – for use by the Commissioner of Agriculture to fund both program and employee costs of various agricultural efforts; and (3) 25.0 percent to the Colorado State Fair Authority Cash Fund – for use by the Colorado State Fair Authority towards the operation, maintenance, and support of the Colorado State Fair.

Planned Expenditures for FY 2008-09 and FY 2009-10. The table below exhibits how moneys credited to the Colorado Travel and Promotion Trust Fund will be eventually be allocated in the current and next fiscal years. These figures are based on the Department's most recent proposed budget.

Proposed Expenditures, Allocated by Entity Fiscal Years FY 2008-09 and 2009-10 Combined				
Specific Program	FY 2008-09	FY 2009-10	2- Yr Total	Pct of 2- Yr Total
Revenues	\$1,600,500	\$3,208,338	\$4,808,838	n/a
Beginning Balance	n/a	80,793	24,539	n/a
Expenditures				
State Fair ¹	793,579	1,700,961	2,494,540	52.1%
Agritourism (Office of the Governor)	160,050	320,834	480,884	10.1%
Noxious Weeds	150,000	300,000	450,000	9.4%
Colorado Proud	100,000	200,000	300,000	6.3%
Conservation	100,000	200,000	300,000	6.3%
Ag Resource Analyst ²	42,301	126,904	169,205	3.5%
Agricultural Products Utilization and Marketing Program (Ag PUMP)	50,000	100,000	150,000	3.1%
Markets FTE ²	39,904	79,808	119,712	2.5%
IT Helpdesk ²	33,873	67,746	101,619	2.1%
Emerging Ag Issues	50,000	50,000	100,000	2.1%
Indirect Recoveries	0	68,339	68,339	1.4%
Advancing Colorado Renewable Energy (ACRE) Grants	0	50,000	50,000	1.0%
Total Expenditures	\$1,519,707	\$3,264,592	\$4,784,299	100.0%
Ending Balance	80,793	24,539	49,078	n/a

"n/a" -- not applicable

¹ Includes 25 percent of moneys credited to the Colorado Travel and Tourism Promotion Fund and moneys allocated to the State Fair from moneys credited to the Agriculture Management Fund (estimated to be \$394,000 in FY 2008-09 and \$899,000 in FY 2009-10).

² For FY 2008-09, reflects 0.3 FTE for the Ag Resource Analyst, and 0.5 FTE for the Markets and IT positions. For FY 2009-10, reflects 1.0 FTE for all three positions.

State Fair Subsidy. The passage of H.B. 08-1399 ultimately provides a long-term subsidy for the State Fair, by furnishing approximately \$1.7 million per year to maintain its operations and to keep it soluble. In addition, the bill offers the Department funding for a variety of agricultural programs, but in the event that the State Fair requires additional funding for any future expenses, funding will likely come from the Agriculture Management Fund.

Debt Owed on the Events Center. The current principal owed on the Events Center is \$970,580. The State Fair makes two payments a year to Wachovia Bank in June and December. The June payment is interest only and the December payment includes both interest and principal. Moneys received from the Colorado Travel and Promotion Trust Fund are set aside by the State Fair on a monthly basis to make such payments. The Department expects to complete its full repayment of debt on the Events Center by December, 2008.

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BRIEFING ISSUE

ISSUE: Department Indirect Cost Recovery Methodology

The indirect cost recovery methodology employed by the Department of Agriculture in recent years has subsidized the indirect costs incurred by the State Fair with General Fund and other fund sources. With moneys made available from the passage of H.B. 08-1399, the State Fair is better positioned to fund its associated indirect costs.

SUMMARY:

- The Department of Agriculture collects indirect costs to recover the expenses incurred by the Commissioner's Office for general supervision and support for the Department.
- In recent years, as a result of the poor operational performance of the State Fair, the Department has not assessed the State Fair indirect costs, thus requiring the other divisions and the General Fund to back-fill these associated expenditures.
- Once H.B. 08-1399 is enacted, funding will be available to enable the State Fair to fund its associated indirect costs.

RECOMMENDATION:

Staff recommends that in January 2009 the JBC consider and approve the staff-initiated FY 2008-09 supplemental change to reduce the Department's General Fund appropriation and increase the Department's cash- and federal-funds appropriation by a commensurate amount to be determined by staff at a later date.

DISCUSSION:

Department Indirect Costs. Indirect costs are the overhead costs associated with the operation of departmental administrative duties. Indirect cost recoveries are intended to offset these overhead costs, that otherwise would have been supported by the General Fund, from cash- and federally-funded programs. Recoveries from cash and federally-funded programs are calculated for statewide and departmental overhead costs. The Department of Agriculture allocates recovery of its indirect costs through a formula based on a 'per FTE' basis, or each FTE's share of recoverable expenses and then multiplies that amount by the total FTE within a specific program or division.

The State Fair's Poor Operational Performance. Between fiscal years 2002-03 and 2006-07 (5 years), the State Fair has had on average expenditures that are \$989,000 greater than their revenues, losing \$4.95 million over that time period. The State Fair requires substantial state support to maintain its solubility and to keep it operational. To the best of staff's understanding, the Department ceased to assess the State Fair an indirect cost payment as it recognized that it was incapable of doing so.

House Bill 08-1399 changed the allocation of moneys credited to the Colorado Travel and Tourism Promotion Fund from being fully allocated to the State Fair to pay off debt to a new allocation including 65 percent to various agriculture programs, 25 percent to the State Fair, and 10 percent to agritourism efforts. The allocation of of said moneys are contingent upon full repayment of the outstanding debt on the Events Center is fully repaid. The Department anticipates the full repayment of debt in December 2008. However, once H.B. 08-1399 is enacted, the Department will have a steady stream of funding to pay the indirect costs of the State Fair and should do so.

Planned Staff-initiated FY 2008-09 Supplemental Reduction. In January 2009, during the Department's supplemental hearing, staff is planning to present to the JBC a staff-initiated FY 2008-09 supplemental change to reduce the Department's General Fund appropriation and increase the Department's cash- and federal-funds appropriation by a commensurate amount to be determined by staff at a later date. This change is intended to reflect the inclusion of the cash-funded FTE at the State Fair whom incur indirect costs for various accounting, budgeting, human resources, and overall departmental direction from the Commissioner's Office. Staff will work with the Department to find a solution to addressing this issue and may seek a phased-in approach to enable the Department to fund the indirect costs of the State Fair without risking any interrupted service delivery.

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APPENDIX A: NUMBERS PAGES

	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
DEPARTMENT OF AGRICULTURE					
John Stulp, Commissioner					
(1) COMMISSIONER'S OFFICE AND ADMINISTRATIVE SERVICES					
Primary Function: Provides administrative and technical support for the divisions and programs within the Department, such as accounting, budgeting, human resources, and information technology. The source of cash funds is from fees collected by various cash funds within the Department. The source of reappropriated funds are from indirect cost recoveries.					
Personal Services	1,541,046	1,572,327	1,629,112	1,790,513	
FTE	<u>18.9</u>	<u>19.2</u>	<u>18.7</u>	<u>19.6</u>	
General Fund	591,464	734,680	759,777	919,601	DI #1 -- GIS Analyst
FTE	18.9	19.2	18.7	19.6	
Cash Funds	126,480	134,522	0	0	
Reappropriated Funds/Cash Funds Exempt	823,102	703,125	869,335	870,912	DI #1 -- GIS Analyst
Health, Life, and Dental	<u>322,700</u>	<u>649,500</u>	<u>1,382,417</u>	<u>1,609,102</u>	
General Fund	222,700	225,000	370,583	431,350	
Cash Funds	100,000	349,500	969,845	1,128,878	
Federal Funds	0	75,000	41,989	48,874	
Short-Term Disability	<u>0</u>	<u>0</u>	<u>19,891</u>	<u>21,102</u>	
General Fund	0	0	5,738	6,087	
Cash Funds	0	0	13,585	14,412	
Federal Funds	0	0	568	603	
SB 04-257 Amortization Equalization Disbursement	<u>8,000</u>	<u>50,000</u>	<u>243,351</u>	<u>324,641</u>	
General Fund	8,000	25,000	69,152	92,252	
Cash Funds	0	25,000	167,205	223,059	
Federal Funds	0	0	6,994	9,330	
SB 06-235 Supplemental Amortization Equalization Disbursement	<u>0</u>	<u>0</u>	<u>112,921</u>	<u>202,900</u>	
General Fund	0	0	31,266	56,180	
Cash Funds	0	0	78,377	140,830	
Federal Funds	0	0	3,278	5,890	
Salary Survey and Senior Executive Service	<u>198,451</u>	<u>342,987</u>	<u>608,483</u>	<u>386,249</u>	
General Fund	118,200	127,987	221,863	140,833	
Cash Funds	80,251	215,000	358,046	227,278	
Federal Funds	0	0	28,574	18,138	

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
Performance-based Pay Awards	<u>0</u>	<u>171,000</u>	<u>231,107</u>	<u>0</u>	
General Fund	0	106,000	114,884	0	
Cash Funds	0	65,000	105,921	0	
Federal Funds	0	0	10,302	0	
Workers' Compensation	<u>247,904</u>	<u>179,678</u>	<u>229,157</u>	<u>229,505</u>	
General Fund	88,247	52,174	66,541	66,642	NP-3 -- Ombuds Program Increase
Cash Funds	103,521	86,817	160,586	160,830	NP-3 -- Ombuds Program Increase
Reappropriated Funds/Cash Funds Exempt	53,941	39,096	0	0	
Federal Funds	2,195	1,591	2,030	2,033	NP-3 -- Ombuds Program Increase
Operating Expenses - GF	103,552	103,552	117,137	126,546	DI #1 -- GIS Analyst NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase
Legal Services	228,917	285,799	349,064	349,064	
<i>Hours Equivalent</i>	<u>3,378</u>	<u>3,968</u>	<u>4,648</u>	<u>4,648</u>	
General Fund	63,421	106,583	90,124	90,124	
Cash Funds	159,557	157,291	246,529	246,529	
Reappropriated Funds/Cash Funds Exempt	5,939	6,392	0	0	
Federal Funds	0	15,533	12,411	12,411	
Purchase of Services from Computer Center - GF	(1,649)	644	24,086	24,086	
Multiuse Network Payments - GF	14,580	0	0	0	
Payment to Risk Management Fund	<u>257,628</u>	<u>130,460</u>	<u>187,542</u>	<u>187,542</u>	
General Fund	89,666	49,608	71,313	71,313	
Cash Funds	103,465	48,192	114,768	114,768	
Reappropriated Funds/Cash Funds Exempt	62,492	31,645	0	0	
Federal Funds	2,005	1,015	1,461	1,461	
Vehicle Lease Payments	<u>127,947</u>	<u>134,770</u>	<u>195,168</u>	<u>227,208</u>	
General Fund	36,774	42,270	81,219	94,714	DI #3 -- Animal Response FTE NP-5 -- State Fleet Lease Increase
Cash Funds	75,129	69,005	109,920	127,810	NP-5 -- State Fleet Lease Increase
Federal Funds	16,044	23,495	4,029	4,684	NP-5 -- State Fleet Lease Increase

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	<u>FY 2006-07</u> Actual	<u>FY 2007-08</u> Actual	<u>FY 2008-09</u> Appropriation	<u>FY 2009-10</u> Request	DI/Notes
Information Technology Asset Maintenance	<u>109,638</u>	<u>107,562</u>	<u>153,031</u>	<u>153,031</u>	
General Fund	31,038	35,881	42,041	42,041	
Cash Funds	72,974	66,055	110,990	110,990	
Reappropriated Funds/Cash Funds Exempt	5,626	5,626	0	0	
Leased Space	<u>103,880</u>	<u>102,457</u>	<u>127,264</u>	<u>116,689</u>	
General Fund	47,084	51,004	57,295	48,440	
Cash Funds	18,134	8,000	69,969	68,249	
Reappropriated Funds/Cash Funds Exempt	38,662	43,453	0	0	
Capital Complex Leased Space	<u>147,960</u>	<u>170,848</u>	<u>169,975</u>	<u>169,975</u>	
General Fund	120,695	139,366	138,654	138,654	
Cash Funds	27,265	31,482	31,321	31,321	
Communications Services Payments	<u>14,389</u>	<u>14,151</u>	<u>14,781</u>	<u>14,781</u>	
General Fund	5,678	9,069	9,473	9,473	
Cash Funds	0	0	5,308	5,308	
Reappropriated Funds/Cash Funds Exempt	8,711	5,082	0	0	
Utilities	<u>124,057</u>	<u>136,413</u>	<u>146,318</u>	<u>146,318</u>	
General Fund	48,192	82,046	91,051	91,051	
Cash Funds	71,445	52,240	55,267	55,267	
Reappropriated Funds/Cash Funds Exempt	1,779	2,127	0	0	
Federal Funds	2,641	0	0	0	
Agriculture Statistics	<u>72,736</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	
General Fund	60,000	60,000	60,000	60,000	
Cash Funds	12,736	15,000	15,000	15,000	
Grants - FF	4,589,456	3,760,084	2,707,089	2,711,371	NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase
FTE	11.2	15.0	9.4	8.0	
Indirect Cost Assessment - FF	155,671	154,827	101,075	56,706	DI #1 -- GIS Analyst

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
					<i>Request vs. Appropriation</i>
TOTAL - (1) COMMISSIONER'S OFFICE	8,366,863	8,142,059	8,823,969	8,922,329	1.1%
FTE	<u>30.1</u>	<u>34.2</u>	<u>28.1</u>	<u>27.6</u>	(1.8%)
General Fund	1,647,642	1,950,864	2,422,197	2,509,387	3.6%
FTE	18.9	19.2	18.7	19.6	4.8%
Cash Funds	950,957	1,323,104	2,612,637	2,670,529	2.2%
Reappropriated Funds/Cash Funds Exempt	1,000,252	836,546	869,335	870,912	0.2%
Federal Funds	4,768,012	4,031,545	2,919,800	2,871,501	(1.7%)
FTE	11.2	15.0	9.4	8.0	(14.9%)
 (2) AGRICULTURAL SERVICES DIVISION					
Primary Function: The division is divided into three distinct programs: (1) Inspection and Consumer Services; (2) Plant Industry; and (3) Animal Industry. The source of cash funds is from fees collected by various cash funds within the Division.					
Personal Services	9,238,592	9,455,221	10,105,072	11,437,656	
FTE	<u>137.1</u>	<u>143.2</u>	<u>152.4</u>	<u>163.1</u>	
General Fund	2,128,011	3,148,690	3,413,075	4,422,831	DI #3 -- Animal Response FTE DI #6 -- Reorganization
FTE	27.5	44.1	45.6	56.3	DI #3 -- Animal Response FTE DI #6 -- Reorganization
Cash Funds	6,561,810	5,971,506	6,202,408	6,488,420	DI #6 -- Reorganization
FTE	106.6	96.1	103.8	103.8	
Reappropriated Funds/Cash Funds Exempt	200,081	0	0	0	
Federal Funds	348,690	335,025	489,589	526,405	DI #6 -- Reorganization
FTE	3.0	3.0	3.0	3.0	
Operating Expenses	<u>1,186,753</u>	<u>1,354,218</u>	<u>1,405,552</u>	<u>1,760,801</u>	
General Fund	157,083	403,990	346,972	492,925	DI #3 -- Animal Response FTE DI #6 -- Reorganization NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase
Cash Funds	920,256	862,449	999,279	1,208,575	DI #4 -- Meas. Standards Truck DI #6 -- Reorganization NP-1 -- State Fleet Variable Cost Increase
Federal Funds	109,414	87,779	59,301	59,301	
Noxious Weed Management Grants - CF	117	187	15,000	15,000	
Diseased Livestock Fund - CF	0	45,300	25,000	25,000	
Cervidae Disease Revolving Fund - CF	188	18	25,000	25,000	

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
Operating Expenses for Aquaculture - CF	24,492	21,727	43,437	43,437	
Lease Purchase Lab Equipment	0	85,992	85,992	85,992	
General Fund	0	39,672	39,672	39,672	
Cash Funds	0	46,320	46,320	46,320	
Economic Development Grants - Reappropriated Funds/Cash	0	0	0	45,000	DI #6 -- Reorganization
Ag Value Added Development Board - CF	0	0	0	574,837	DI #6 -- Reorganization
FTE	0.0	0.0	0.0	0.5	DI #6 -- Reorganization
Distributions to Soil Conservation Districts - GF	0	0	0	391,714	DI #6 -- Reorganization
Matching Grants to Districts	0	0	0	675,000	
General Fund	0	0	0	225,000	DI #6 -- Reorganization
Cash Funds	0	0	0	450,000	DI #6 -- Reorganization
Salinity Control Grants - FF	0	0	0	500,000	DI #6 -- Reorganization
Indirect Cost Assessments	<u>736,778</u>	<u>539,710</u>	<u>615,468</u>	<u>593,756</u>	
Cash Funds	703,873	478,166	592,143	572,491	DI #1 -- GIS Analyst DI #6 -- Reorganization
Federal Funds	32,905	61,544	23,325	21,265	
					<i>Request vs. Appropriation</i>
TOTAL - (2) AGRICULTURAL SERVICES	11,186,920	11,502,373	12,320,521	16,173,193	31.3%
FTE	<u>137.1</u>	<u>143.2</u>	<u>152.4</u>	<u>163.6</u>	<u>7.3%</u>
General Fund	2,285,094	3,592,352	3,799,719	5,572,142	46.6%
FTE	27.5	44.1	45.6	56.3	23.5%
Cash Funds	8,210,736	7,425,673	7,948,587	9,449,080	18.9%
FTE	106.6	96.1	103.8	104.3	0.5%
Reappropriated Funds/Cash Funds Exempt	200,081	0	0	45,000	100.0%
Federal Funds	491,009	484,348	572,215	1,106,971	93.5%
FTE	3.0	3.0	3.0	3.0	0.0%

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
(3) AGRICULTURAL MARKETS DIVISION					
Primary Function: Provides marketing assistance and related support to Colorado agricultural-based businesses competing in local, national, and international arenas. The source of cash funds is from the Agricultural Value-added Cash Fund. The reappropriated funds are from a transfer from the Economic Development Commission, in the Office of the Governor.					
Personal Services - GF	370,386	370,376	393,351	0	DI #6 -- Reorganization
FTE	4.5	4.4	4.7	0.0	DI #6 -- Reorganization
Operating Expenses	<u>61,836</u>	<u>64,196</u>	<u>82,577</u>	0	
General Fund	29,861	29,861	32,123	0	DI #6 -- Reorganization
Cash Funds	31,975	34,335	50,454	0	NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase DI #6 -- Reorganization
Economic Development Grants - Reappropriated Funds/Cash	119,075	124,797	45,000	0	
Ag Value Added Development Board - CF	90,430	348,204	574,837 a/	0	
FTE	0.5	0.5	0.5	0.0	
Indirect Cost Assessments - CF	0	0	3,888	0	DI #1 -- GIS Analyst DI #6 -- Reorganization
					<i>Request vs. Appropriation</i>
TOTAL - (3) AGRICULTURAL MARKETS	641,727	907,573	1,099,653	0	(100.0%)
FTE	<u>5.0</u>	<u>4.9</u>	<u>5.2</u>	<u>0.0</u>	<u>(100.0%)</u>
General Fund	400,247	400,237	425,474	0	(100.0%)
FTE	4.5	4.4	4.7	0.0	(100.0%)
Cash Funds	122,405	382,539	629,179	0	(100.0%)
FTE	0.5	0.5	0.5	0.0	(100.0%)
Reappropriated Funds/Cash Funds Exempt	119,075	124,797	45,000	0	(100.0%)

a/ Includes \$500,000 received from the Operational Account of the Severance Tax Trust Fund, pursuant to Section 39-29-109.3 (2) (h), C.R.S.

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
(4) BRAND BOARD					
Primary Function: Inspects cattle, horse, and alternative livestock brands to verify ownership at the time of sale, transport, or slaughter. The source of funding is fee-for-service. The Brand Board constitute an enterprise for the purposes of Section 20 of Article X of the Colorado Constitution (TABOR).					
Brand Inspections - CFE/CF	3,399,037	3,619,609	3,688,929	3,859,310	DI #2 -- Fuel Increase
FTE	57.7	57.4	66.3	66.3	
Alternative Livestock - CFE/CF	13,886	14,555	95,662	95,662	
Indirect Cost Assessments - CFE/CF	126,480	134,522	137,241	138,935	
					<i>Request vs. Appropriation</i>
TOTAL - (4) BRAND BOARD - CF	3,539,403	3,768,686	3,921,832	4,093,907	4.4%
FTE	57.7	57.4	66.3	66.3	0.0%

(5) SPECIAL PURPOSE

Primary Function: This section is comprised of the Wine Promotion Board, Vaccine and Service Fund, and the Brand. Estray Fund. Once debt on the Events Center on the State Fair Grounds is paid in full, the Agriculture Mangement Fund will receive sixty-five percent of the interest derived from the deposit and investment of moneys in the Unclaimed Property Tourism Promotion Trust Fund, pursuant to H.B. 08-1399.

Agriculture Management Fund - CF	0	0	1,348,763	2,112,719	
FTE	<u>0.0</u>	<u>0.0</u>	<u>6.0</u>	<u>10.0</u>	
Personal Services	0	0	408,266	226,036	<i>informational purposes only</i>
Operating	0	0	73,830	44,711	<i>informational purposes only</i>
Programs	0	0	866,667	1,774,556	<i>informational purposes only</i>
Indirects	0	0	n/a	67,415	<i>informational purposes only</i>
Wine Promotion Board - CF	518,546	575,281	467,326	473,278	NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase
FTE	0.5	1.0	1.5	1.5	
Vaccine and Service Fund - CF	268,583 a/	301,600 a/	162,713 a/	162,713	
Brand Estray Fund - CFE/CF	45,752	63,963	94,050	94,050	
Indirect Cost Assessment - CF	8,133	8,588	11,663	81,515	DI #1 -- GIS Analyst

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
					<i>Request vs. Appropriation</i>
TOTAL - (5) SPECIAL PURPOSE - CF	841,014	949,432	2,084,515	2,924,275	40.3%
FTE	0.5	1.0	7.5	11.5	53.3%
a/ Funding is continuously appropriated, pursuant to Section 35-29.5-105, C.R.S.					
 (6) COLORADO STATE FAIR					
Primary Function: Administering the State Fair under the guidance of the State Fair Authority. The source of funding is fees collected by the State Fair during its 11-day run and from non-fair events held at the State Fairgrounds in Pueblo, Colorado, throughout the remainder of the year.					
Program Costs - CF	7,976,409	8,171,749	9,009,242	9,048,878	NP-1 -- State Fleet Variable Inc
FTE	20.3	21.8	26.9	26.9	
					<i>Request vs. Appropriation</i>
TOTAL - (6) COLORADO STATE FAIR - CF	7,976,409	8,171,749	9,009,242	9,048,878	0.4%
FTE	20.3	21.8	26.9	26.9	0.0%
 (7) CONSERVATION BOARD					
Primary Function: Preserving Colorado's natural resources including reducing soil erosion and flood damage, as well as protecting underground water reserves.					
Personal Services - GF	245,781	346,901	367,699	0	DI #6 -- Reorganization
FTE	3.5	5.1	5.5	0.0	DI #6 -- Reorganization
Operating Expenses - GF	33,673	59,223	64,109	0	DI #6 -- Reorganization NP-1 -- State Fleet Variable Inc NP-4 -- Postage Increase
Distributions to Soil Conservation Districts - GF	391,714	391,714	391,714	0	DI #6 -- Reorganization
Matching Grants to Districts	<u>573,396</u>	<u>622,065</u>	<u>675,000</u>	<u>0</u>	
General Fund	150,000	150,000	225,000	0	DI #6 -- Reorganization
Cash Funds	423,396	472,065	450,000 a/	0	DI #6 -- Reorganization

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	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request	DI/Notes
Salinity Control Grants - FF	2,167,517	2,738,557	500,000	0	DI #6 -- Reorganization
FTE	0.0	0.7	0.0	0.0	DI #6 -- Reorganization
					<i>Request vs. Appropriation</i>
TOTAL - (7) CONSERVATION BOARD	3,412,081	4,158,460	1,998,522	0	(100.0%)
FTE	<u>3.5</u>	<u>5.1</u>	<u>5.5</u>	<u>0.0</u>	(100.0%)
General Fund	821,168	947,838	1,048,522	0	(100.0%)
FTE	3.5	5.1	5.5	0.0	(100.0%)
Cash Funds	423,396	472,065	450,000	0	(100.0%)
Federal Funds	2,167,517	2,738,557	500,000	0	(100.0%)

a/ This does not include \$450,000 continuously appropriated to the Department from the Conservation District Grant Fund from the Operational Account of the Severance Tax Trust Fund, pursuant to section 35-1-106.7 (1) (a), C.R.S.

					<i>Request vs. Appropriation</i>
DEPARTMENT OF AGRICULTURE					
TOTALS	35,964,417	37,600,332	39,258,254	41,162,582	4.9%
FTE	<u>254.2</u>	<u>267.6</u>	<u>291.9</u>	<u>295.9</u>	1.4%
General Fund	5,154,151	6,891,291	7,695,912	8,081,529	5.0%
FTE	54.4	72.8	74.5	75.9	1.9%
Cash Funds	22,064,320	22,493,248	26,655,992	28,186,669	5.7%
FTE	185.6	176.8	205.0	209.0	2.0%
Reappropriated Funds/Cash Funds Exempt	1,319,408	961,343	914,335	915,912	0.2%
Federal Funds	7,426,538	7,254,450	3,992,015	3,978,472	(0.3%)
FTE	14.2	18.0	12.4	11.0	(11.3%)

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APPENDIX B: SUMMARY OF MAJOR LEGISLATION

- ❑ **H.B. 08-1399 (Buescher/Isgar): Moneys Benefitting Various Agricultural Programs from the Unclaimed Property Tourism Promotion Trust Fund.** Changes the allocation of interest earned on the Unclaimed Property Tourism Trust Fund from the sale of securities determined to be abandoned property which are then credited to the Colorado Travel and Tourism Promotion Fund. Under the bill, the earned interest will be distributed as follows: (1) 10.0 percent will remain in the Colorado Travel and Tourism Promotion Fund for use by the Colorado Tourism Office in the Office of Economic Development and International Trade to promote agritourism in coordination with the commissioner; (2) 65.0 percent to the newly created Agriculture Management Fund – for use by the Commissioner of Agriculture to fund both program and employee costs of agricultural efforts; and (3) 25.0 percent to the Colorado State Fair Authority Cash Fund – for use by the Colorado State Fair Authority towards the operation, maintenance, and support of the Colorado State Fair. Appropriates \$1.3 million and 6.0 FTE to the Department of Agriculture, Special Purpose Division, and reduces the federal funds appropriation in the Commissioner's Office by 3.6 FTE. Increases the cash funds appropriation to the Office of the Governor, Economic Development Programs, Colorado Promotion - Other Promotion Programs by 1.0 FTE to administer state agritourism. *The appropriation of said moneys are contingent upon full repayment of the outstanding debt incurred by the Colorado State Fair Authority to build the Events Center in Pueblo.*

- ❑ **H.B. 07-1198 (Pommer/Johnson): Refinancing Inspection and Consumer Services Programs.** Extends the Commissioner of Agriculture's ability, in conjunction with the members of the Colorado Agriculture Commission, to increase fees related to Inspection and Consumer Services (ICS) programs to fund its programs' direct and indirect costs. Subsidizes ICS programs with General Fund in relation to how much the services provided by each program benefits the common good as compared to a specific industry. Prior to 2004, ICS programs received 100 percent General Funding. However due to the state's budget crisis, S.B. 03-297 was enacted which refinanced these programs away from General Fund to 100 percent cash funding. In 2005, S.B. 05-176 was enacted which extended the ICS Cash Fund with a sunset date of June 30, 2007. After this date, reduced fees established by statute will be collected by the Department of Agriculture and transmitted to the General Fund. This action would significantly reduce revenue generated from the program's current fee structures. House Bill 07-1198 effectively decreases the General Fund expenditure by \$2,560,403 and 32.9 FTE and increases expenditures from the ICS Cash Fund by \$2,679,755 and 32.9 FTE – which includes \$119,352 in indirect cost assessments. In addition, the bill removes the Butcher's Law license exemption and amends the methods of fee collection for both the ICS Division and the Brand Board.

- ❑ **H.B. 06-1384 (Buescher/Tapia): Moneys Benefitting the State Fair.** Changed the allocation of the Unclaimed Property Tourism Promotion Trust Fund interest to provide additional moneys to the state fair through the Colorado Travel and Tourism Promotion Fund. Moneys provided to the Colorado State Fair are prioritized as follows: (1) state Treasury loans to the state fair are to be paid down with remaining funds; (2) upon repayment of the state Treasury loans, any remaining funds are to pay off outstanding debt incurred by the Colorado State Fair Authority to build the events center in Pueblo; (3) upon payment of all debt, \$550,000 is provided annually for administrative expenses, operating costs, and event promotion; and, (4) after the third fiscal year (in FY 2009-10) only the \$550,000 for administrative, operating, and promotional costs are authorized. Appropriated \$3,163,978 cash funds from the Colorado Travel and Tourism Promotion Fund to the Department of Agriculture, Colorado State Fair, for FY 2006-07.

- ❑ **S.B. 05-176 (Owen/Plant): Continuance of Cash-Funding Programs in the Inspection and Consumer Services Division.** Department of Agriculture - authority to set fees and penalties. Re-authorizes the Commissioner of Agriculture, in conjunction with the Colorado Agricultural Commission, to adjust licensing and testing fees for seven programs related to Inspection and Consumer Services (ICS) in the Agricultural Services Division. Sunsets applicable program fees and the inspection and consumer services cash fund (#16R) on July 1, 2007, and resumes the previous fee structure and corresponding subsidy from the General Fund.

- ❑ **S.B. 03-297 (Owen/Plant): Cash-Funding Programs in the Inspection and Consumer Services Division.** Authorizes the Commissioner of Agriculture to increase fees for seven programs related to Inspection and Consumer Services. Refinances the General Fund subsidy for these programs with revenue generated from these fee increases. Sunsets these fee increases on July 1, 2005, and returns the fees to their previous levels.

- ❑ **S.B. 03-169 (Teck/Plant): Remove Indirect Cost Caps.** Removes indirect cost recovery caps for the Brand Inspection, Chemigation, and the Mandatory Fruit and Vegetable Inspection programs. Reduces the Department's General Fund appropriation by \$495,000. Sunsets effective July 1, 2006, and reinstates the previous indirect cost recovery.

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**APPENDIX C: UPDATE OF FY 2008-09
LONG BILL FOOTNOTES AND REQUESTS FOR INFORMATION**

Long Bill Footnotes

None.

Requests for Information

- 1 All Departments, Totals** -- Every department is requested to submit to the Joint Budget Committee information on the number of additional federal and cash funds FTE associated with any federal grants or private donations that are applied for or received during FY 2008-09. The information should include the number of FTE, the associated costs (such as workers' compensation, health and life benefits, need for additional space, etc.) that are related to the additional FTE, the direct and indirect matching requirements associated with the federal grant or donated funds, the duration of the grant, and a brief description of the program and its goals and objectives.

Comment: The Department did not submit this report to the Joint Budget Committee. In FY 2008-09, it was estimated that the Department would receive \$4.0 million, approximately 10.2 percent of the Department's budget funding 12.4 FTE (4.3 percent of all authorized FTE).

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APPENDIX D: Indirect Cost Recovery Caps: Last Three Performance Audit Findings

Findings of the last three Performance Audits and the Department's Response. The issue of indirect cost recovery caps has been addressed in each of the Department's last three performance audits: the first was submitted in November 1989, the second in August 1994 and the most recent in February 2001. Each time, the Department has disagreed with the State Auditor's recommendation to abolish these caps.

- *November 1989.* The November 1989 Performance Audit specifically brought up the indirect cost recovery shortfall pertaining to the Brand Board and stated that the General Assembly should consider amending the applicable statutes to allow for full recovery of indirect costs. The Department's response referred to H.B. 88-1126 as evidence of negotiations reached between the Joint Budget Committee, the Office of State Planning and Budgeting, the Brand Board, and the Colorado Department of Agriculture. The response goes on to say ' . . . the auditors should have raised their concerns . . . during the legislative review-and-hearing process.'
- *August 1994.* In response to the August 1994 Performance Audit, the Department stated that S.B. 93-77 originally included sections to eliminate the indirect cost recovery caps relating to the Brand Board and Chemigation as well as the Mandatory Fruit and Vegetable Inspection program, but were not part of the final legislation. Furthermore, H.B. 94-1096 instituted yet another indirect cost recovery cap of 3.6 percent when the Alternative Livestock Cash Fund was created. The Department's response to the audit findings asserted that the General Assembly had affirmed the value of statutory program caps toward the betterment of the agricultural community and thus the recommendation had already been addressed.
- *February 2001.* The Department's response to the February 2001 Performance Audit echoes many of these same arguments stating that indirect cost recovery caps were 'put in statute by the General Assembly for the benefit of these programs and these caps are adhered to with the full knowledge of the Joint Budget Committee . . . significant increases in fees to raise indirect costs would jeopardize these programs and the benefits they bring to Colorado's agriculture.'

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APPENDIX E: Mandatory Fruit & Vegetable Inspection Program Subsidy History

Historical Fee Levels for Potato Inspections. The following tables provides the changes in fees for the inspection of potatoes. Fees per carlot were converted to the current standard of cents per hundredweight (cwt). A carlot was the standard of volume used to inspect potatoes until 1971. A carlot is equal to a truckload which is 45,000 pounds and is equivalent to 450 hundredweight (cwt).

Year	Enacting Legislation	Fee in Statute	Cents per Hundredweight (cwt)	2008 Value* Cents per Hundredweight (cwt)
1931	H.B. 31-431	\$3.00/carlot	0.7	10.1
1945	S.B. 45-73	\$5.00/carlot	1.1	13.0
1951	H.B. 51-5	\$12.00/carlot	2.7	23.0
1971	H.B. 71-1467	10 cents per cwt	10.0	54.0
1973	S.B. 73-237	Set by Commissioner	n/a	n/a

* Conversion of fee values to the 2008 consumer price index is provided by the Bureau of Labor Statistics inflation calculator.

Enacted Legislation	Detail of Programmatic Funding Changes (Fees, Subsidies, etc.)
H.B. 31-431	Created a mandatory fruit and vegetable inspection program. Declared that fees not be more than \$3.00 per carlot (0.7 cents, 10.1 cents in 2008).
S.B. 45-73	Set fees at no more than \$5.00 per carlot (1.1 cents per cwt, 13.0 cents in 2008). Created the Fruit and Vegetable Inspection Fund.
H.B. 51-5	Set fees at no more than \$12.00 per carlot (2.7 cents per cwt, 23.0 cents in 2007)
H.B. 65-1048	Abolished all agricultural cash funds and redirected all collected fees to the General Fund.
H.B. 71-1467	Set fees at no more than 10 cents per cwt (54.0 cents in 2008)
S.B. 73-237	Set fees to cover no more than 50 percent of operational costs. The remainder to be paid by the General Fund.
S.B. 84-208	Set fees to cover 100 percent of operational costs. Appropriated \$42,000 CF and 2.0 FTE. Equivalent to \$84,279 CF in 2007.
H.B. 85-1232	Requires at least 50 percent of the General Fund, or \$400,000, which ever is the lesser amount to cover the operational costs of the program.
S.B. 92-28	Reduced the \$400,000 General Fund subsidy to \$200,000 and removed the fee cap. Sunset the reduction on July1, 1994, returning the subsidy to \$400,000 General Fund.
S.B. 93-77	Removed the July 1, 1994 sunset, maintaining the subsidy at \$200,000 General Fund.

Conversion of fee values to the 2008 consumer price index is provided by the Bureau of Labor Statistics inflation calculator.